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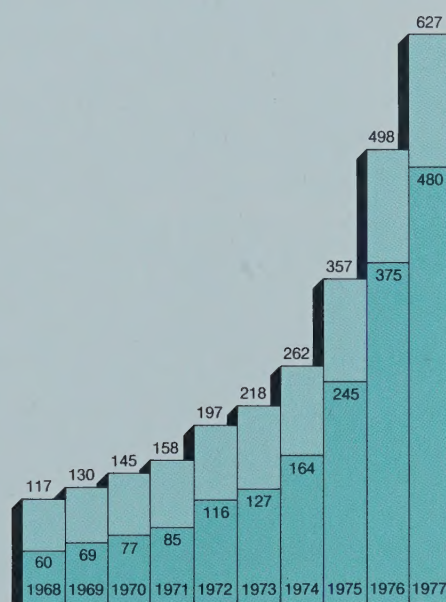
Consumers' Gas

1977 ANNUAL REPORT

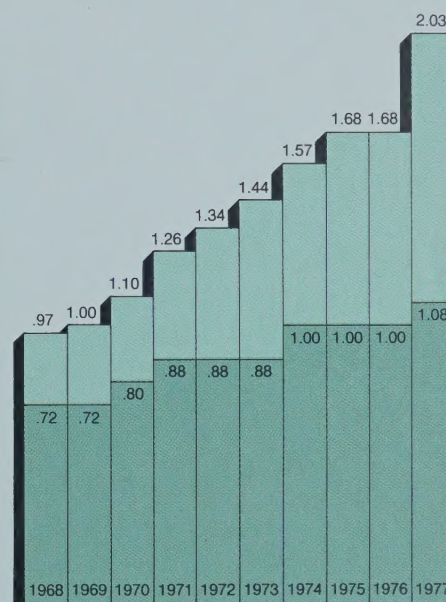
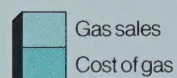
HIGHLIGHTS

The Consumers' Gas Company

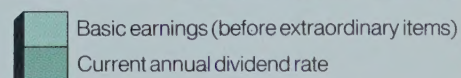
September 30	1977	1976
Basic earnings per common share		
Income before extraordinary items	\$2.03	\$1.68
Net income	\$1.67	\$1.69
Dividends declared per common share	\$1.08	\$1.00
Weighted average number of common shares outstanding	20,645,459	20,643,424
Net income for the year available for dividends and reinvestment in the business	\$ 37,325,000	\$ 37,428,000
Volumes of gas sold—Mcf	318,664,000	306,777,000
Number of active customers	534,828	511,177
Total revenues	\$649,822,000	\$522,766,000
Property, plant and equipment less accumulated depreciation and depletion	\$619,469,000	\$581,825,000
Net additions to property, plant and equipment	\$ 56,888,000	\$ 53,886,000



Gas sales and cost of gas (\$ millions)



Earnings and dividends per common share (\$)



Report to Shareholders

The 1977 fiscal year has been one of accomplishment for your Company. The Annual Report records satisfactory earnings growth, an improved ability to raise capital and an increase in the Company's equity holdings in Home Oil Company Limited. In addition recent developments in Western Canada indicate that an adequate supply of natural gas should be available from this source to meet demands well into the 1980s. The problems of a stagnant economy, inflation and the competitive position of natural gas in future energy markets remain. However, your Company will make every effort to develop and support policies designed to maintain and improve the competitive position of its product and is hopeful of some improvement in the economy.

Following marginal earnings growth in 1976, basic earnings per common share before extraordinary items have increased from \$1.68 last year to \$2.03 in 1977. Several factors have combined to produce this income improvement. They include the implementation on October 1, 1976 of higher rates resulting from a June 1976 decision of the Ontario Energy

Board, the much colder than normal weather experienced in the 1976-1977 winter season and an increase in the earnings of Home Oil and Consumers' equity therein.

During the fiscal year, the Company realized extraordinary gains upon the sale of its former head office building as well as 60,000 shares of Community Antenna Television Ltd., previously owned by Cygnus Corporation Limited, a subsidiary of the Company. In addition an extraordinary gain resulted from the Company's equity in the sale of a building by Home Oil. These gains were more than offset by extraordinary losses experienced on the sale of a common share investment in Union Gas Limited and the write-off of the Company's investment in the Canadian Arctic Gas Study Limited project (details concerning Arctic Gas appear on page 5 of this Report). The combined effect of these gains and losses produced income per share after extraordinary items in 1977 of \$1.67 compared with \$1.69 in 1976.

On September 30, 1977, Consumers' executed an agreement for the sale of its western Canadian resource holdings to Sundance Oil Company for a cash consideration of \$20.1 million. While the transfer of the property is deemed by the parties to have taken place on September 30th, the transaction is subject to approval under the provisions of the Foreign Investment Review

Act (Canada). Consequently, the financial statements for the current fiscal year do not reflect this item. If approval is granted, the sale will give rise to a net extraordinary gain of approximately \$3.2 million or 15.4¢ per share in the 1978 fiscal year. The Company will continue its exploration and production activities in Lake Erie, Southwestern Ontario and in the States of New York and Pennsylvania.

During the fiscal year, your Company purchased 312,400 Class A non-voting shares of Home Oil Company Limited, thereby increasing its participation in the equity and earnings of Home from 21.8% in 1976 to 25.2% at September 30, 1977. Purchases of an additional 525,000 Class A shares since September 30, 1977 have now increased the participation to 31.6%. These purchases and the pending sale of Consumers' western Canadian resource properties reflect the Company's desire to pursue its natural resource interests through Home Oil and avoid possible duplication of effort between the companies. A more detailed description of Home's operations appears on pages 9 and 12 of this Report.

In the past twelve months, the Ontario Energy Board has approved two rate increases



Executive Committee: Mr. Noah Torno, Mr. G.E.Creber, Mr. J.D.Gibson
(Chairman), Mr. A.G.S.Griffin and Mr. A.R.Poyntz.
Absent: Mr. R.S.Hurlbut

designed to recover corresponding increases in the cost of gas purchased from TransCanada PipeLines Limited. In addition, on June 8, 1977 the Company applied to the Board for approval of further increases in its rates to recover increased costs of operations and to reflect a current rate of return. While this application is still in process the Board, on October 27, 1977, authorized an interim increase in rates, effective November 1, 1977, to generate incremental annual revenues of \$12.1 million. Essentially, this rate relief maintains the 10.1% allowable rate of return found appropriate on June 30, 1976 by allowing the Company to recover increases in the cost of doing business which occurred during its 1977 fiscal year. The recovery of anticipated increases in costs in 1978 and the determination of a current rate of return will be dealt with at a later date, in the Board's decision on the main application.

At the beginning of the fiscal year, the Company's debentureholders approved deed amendments easing restrictions on its ability to issue additional debentures. In September 1977, the Company raised \$70 million through a 9.60% Sinking Fund Debenture issue, the largest single issue it has ever placed. The excellent institutional and retail responses to this issue reflect well on the credit worthiness of your Company.

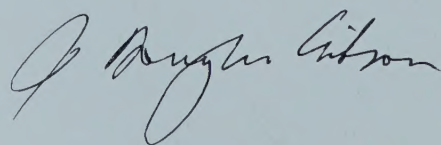
To Mr. J. C. McCarthy, who retired this year from the positions of Vice-Chairman of the Board and Director, we wish to express our sincere appreciation for his contribution to the Company and the industry. His 28-year career with Consumers' has been dedicated to the advancement of the natural gas industry in Canada and the success of your Company today owes much to his efforts.

One of our present Directors, Mr. D. B. Mansur, C.B.E., is retiring this year as a result of the Company's retirement policy. His wise advice and counsel will be missed and we are very grateful to him for his long and distinguished service.

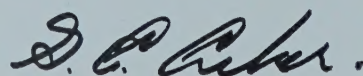
During the year Miss K. E. Parkinson joined the Company and was appointed Corporate Secretary and Legal Officer.

The Directors wish to acknowledge that this year of accomplishment has been built on the efforts, loyalty and dedication of the Company's employees. For their contribution, we thank them.

On behalf of the Board:



Chairman of the Board



President and
Chief Executive Officer

November 14, 1977.

Report on Operations

Gas supply and exploration

Recent events indicate a considerable improvement in the outlook for a supply of natural gas from the western provinces to meet projected requirements well into the 1980s. This improvement can be attributed to additional gas reserves resulting from increased exploration activity in Western Canada, the increasing ability to produce economically reserves previously considered too costly to develop, and a decline in the rate of growth of Canadian consumption.

The Federal Government continues to index the price of gas to the price of oil at the Toronto City Gate and over the past year implemented two price increases under the provisions of the Petroleum Administration Act. On January 1, 1977 the City Gate base price of natural gas was increased by 10.0¢ per Mcf, a further increase of 17.5¢ per Mcf occurred on August 1, 1977, and an additional increase of 17.0¢ per Mcf will be effective February 1, 1978. These increases will result in a Toronto City Gate base price of approximately \$1.85 per Mcf on February 1, 1978.

The utilization of underground

storage facilities continues to play a very important role in our gas supply operations. The availability of these facilities and the improved overall gas supply situation enabled the Company to make available to TransCanada PipeLines Limited 10.5 Bcf of gas for export to the United States when a fuel shortage was experienced there last winter. Equivalent volumes were redelivered by TransCanada to the Company during the summer months of 1977.

Tecumseh Gas Storage Limited, jointly owned by Consumers' and Imperial Oil Limited, stores gas for the Company during off-peak periods of demand for redelivery over the following winter season. During peak winter periods, almost 50% of system requirements are obtained from storage.

Tecumseh recently obtained approval from the Ontario Energy Board for the installation of a second 76 cm (30") gas transmission line to connect the storage pools with the Union Gas Dawn-Toronto transmission facilities. This line, now under construction, will provide a substantial measure of security of supply and the added capacity will enable Tecumseh to meet Consumers' increasing demands for winter peaking service in the future.

Company-owned smaller underground storage facilities in the Niagara Peninsula continue to be expanded and additional storage space is available to the Company under a long term

agreement with Union Gas Limited.

Consumers' actively supported Canadian Arctic Gas Study Limited in its proposed project to construct a large diameter pipeline for the transportation of natural gas from Alaska and the Mackenzie Delta to markets in Canada and the United States. Such support was given in the belief that the project would provide frontier supplies to Canadian markets in the most timely and economical manner. In a decision issued on July 4, 1977, the National Energy Board denied the Arctic Gas application and granted conditional approval to the competing Foothills-Yukon application which sought an Alaska Highway pipeline route through Canada to United States markets. The decision made provision for a possible pipeline connection to the Mackenzie Delta-Beaufort Sea reserves for a gas supply to Canadian markets when required to augment conventional production from the western provinces.

On September 8, 1977 it was announced that negotiations between the governments of Canada and the United States had resulted in an agreement for the construction of the Foothills pipeline. In general, the terms and conditions for a connection to the Delta reserves were also



Gas volume statistics Bcf



Gas sales Bcf



One of Consumers' construction crews is installing a new 50 cm (20") transmission line on the Humber River bridge in Toronto. This project, one of the largest undertaken by Consumers' personnel, was completed in June of this year.

established by this agreement. While these frontier sources are being developed, the improved supply position in Western Canada does much to remove the concern over gas supply for present and future markets.

During the year the Company's exploration and development drilling program included participation in 85 wells in Canada, 61 of which were drilled on Consumers' wholly-owned Lake Erie acreage, 19 in Western Canada, four in Southwestern Ontario and one in the Mackenzie Delta. Of these, 45 were completed as potential commercial gas producing wells, 31 being in Lake Erie, 11 in Western Canada and 3 in Southwestern Ontario.

On September 30, 1977, the Company agreed to sell its proven and exploratory properties in Western Canada to Sundance Oil Company for a cash payment of \$20.1 million. The transaction is subject to the approval of the Canadian Foreign Investment Review Agency. Remaining landholdings in Canada, principally in Ontario, now total 2,343,600 gross acres or 1,555,300 net acres.

During the 1977 drilling season, a wholly-owned subsidiary, Underwater Gas Developers Limited, utilized its three offshore drilling platforms on Company-owned acreage in Lake Erie. Contract land drilling was undertaken for other parties in the States of New York, Ohio and Pennsylvania.

The Company owns 1,268,000 shares (43%) of Sogepet Limited which has interests in exploration acreage in the Hudson Bay Region and in the States of New York and Pennsylvania.

The Company, through a wholly owned subsidiary, St. Lawrence Gas Company, Inc., and its subsidiary, St. Lawrence Exploration Corporation, participated with Sogepet and others in a 20-well development drilling program in New York State and a gas sales contract for all wells is expected to be signed shortly with production commencing in December 1977.

Marketing

For the second consecutive year, a record number of new residential heating customers was connected to the system. Of the 26,132 added customers, 22,079 resulted from new residential construction and 4,053 from conversions from other fuels to gas. Natural gas service for home heating continues to be installed in 85% to 90% of new homes constructed in the Company's franchise areas. These results clearly demonstrate the continued acceptance of natural gas by the home building industry and the ultimate home buyer.

Total gas sales volumes amounted to 319 billion cubic feet, an increase of 4% over last year's sales. Substantially colder weather in 1977, approximately 8% colder than last year, accounted to a large extent for this increase. The rate of increase in volumes of gas sold, when

adjusted to normal weather conditions, shows a decline from historical growth trends in all market sectors and can be attributed to the economic slowdown and conservation efforts by individual customers.

The announced intention of the Federal Government to raise the price of gas at the Toronto City Gate to the equivalent of 100% of the cost of crude oil at the refinery gate, could adversely affect demand for gas in the more price-sensitive industrial markets, where alternate fuel burning capabilities exist. This pricing policy is inconsistent with the need to develop markets for gas in Eastern Canada in order to reduce the Country's dependence on costly imported oil and its adverse balance of payments consequences. The Company therefore continues to urge representatives of the Government to recognize, in the commodity value indexing program of the price of gas to oil, the flexibility in pricing which is available to heavy oil suppliers. Any material loss of industrial gas sales to price-based competition would place an extra burden on the remaining residential and commercial customers of a gas distribution utility such as Consumers'.

In the belief that maximum effort should be made to reduce unnecessary consumption of all forms of energy, the Company co-operates with governments in national and provincial energy conservation programs and provides conservation consulting

services in all market segments. To September 30, 1977, 14,500 customers had taken advantage of the Company's ceiling insulation program.

The Company's appliance merchandising program, which operates in conjunction with the residential marketing of gas, again achieved a record year with sales of \$7.2 million as compared to \$6.4 million last year.

Operations

At September 30, 1977, the total number of customers served by the Company had increased to approximately 535,000. This is a net increase of 23,000 or 4.5% over September 30, 1976. The connection of new customers during the year involving the installation of mains, meters, services and other equipment required capital expenditures of \$23 million. An additional \$11 million was expended on alterations and replacements to the system to ensure continuity and reliability of service and to accommodate general municipal improvements. In addition to these capital expenditures, the Company invested in exploration activity, gas equipment for rental to customers and other general plant. Total capital expenditures in 1977 amounted to \$60 million and it is anticipated that \$65 million will be spent in 1978. In the interest of cost control, the Company continues to examine construction methods, new materials and improved construction techniques to offset as much as possible the effects of

inflationary cost increases.

Total operating and maintenance costs in 1977 amounted to \$52 million. These costs include the cost of customer service, engineering, planning, billing, collection, accounting, computer operations, marketing, purchasing, research, personnel and general administration.

Regulation

The prices which the Company may charge its customers in Ontario for the supply of natural gas and related services are regulated by the Ontario Energy Board. The Board examines in detail the cost of providing service, which includes the cost of capital, and the manner in which the Company may recover these costs through rate schedules.

On October 1, 1976, the Company was permitted to implement, on an interim basis, rates designed to generate revenue in an amount approved by the Board on June 30, 1976. These rates were structured to recover the cost of providing service to customers based on a 1976 fiscal year test period and to generate the 10.1% return found reasonable by the Board at that time. In an Order dated June 8, 1977, the Board approved the rate design and confirmed the appropriateness of its October 1st implementation.

Higher rates in effect in fiscal 1977 contributed significantly to the Company's earnings growth. However, increases in the cost of providing service and the rising cost of capital impeded the

Company's ability to achieve the maximum allowable rate of return.

In order that increases in costs since 1976 might be recognized in rates to be charged in 1978 and to permit a more current allowable rate of return to be established, the Company applied to the Board on May 16, 1977 for permission to further increase its rates. A public hearing of this application commenced on June 23, 1977 and, pending a final decision, the Company requested approval to implement revised rates, on an interim basis, at the beginning of its 1978 fiscal year. In response to this request the Board, on October 27, 1977, authorized an increase in rates, effective November 1, 1977, to generate incremental annual revenues of \$12.1 million. Essentially, this rate relief maintains the 10.1% allowable rate of return and compensates the Company for increases in the cost of doing business which occurred during its 1977 fiscal year. The recovery of anticipated increases in costs in 1978 and the determination of a current rate of return will be dealt with at a later date, in the Board's decision on the main application.

During the year the Company experienced two substantial increases in the cost of purchased gas and expeditious approval by the Ontario Energy Board enabled it to recover these increases from its customers. A suitable delay in the implementation of the revised rate

structure allows customers to receive the benefit of the lower cost of gas held in underground storage, purchased at rates prevailing prior to increases in gas costs.

Other regulatory activity in 1977 involved Société Gazifère de Hull, Inc., which received approval from the Quebec Electricity and Gas Board to implement, effective June 10, 1977, revised rates designed to earn the requested 11.6% rate of return.

Other activities

In a period of rapidly rising energy costs, it is essential that the industry concern itself with the design and production of more efficient gas burning equipment. To this end the Company participates in research and development programs conducted at a number of leading research establishments, including The Canadian Gas Research Institute, The Ontario Research Foundation and the Institute of Gas Technology in Chicago. Consumers' is also an active participant in the American Gas Association's "Space Heating Efficiency Improvement Program", sponsored by 60 North American utilities, the objectives of which are to improve furnace efficiency, encourage the development of new appliances and provide a co-ordinated industry voice before governmental authorities. Alternative sources of energy

continue to be studied with emphasis being placed on the technical evaluation and economic feasibility of solar-assisted natural gas systems.

Consumers' offers worldwide consulting services. During the past year, Consumers' undertook a project for Sonelgaz, an Algerian gas and electric power supplier. The contract, which will extend into the coming year, covers all aspects of the use of plastic pipe for gas distribution in Algeria. A consulting assignment was also completed for the South Australian Gas Company in Adelaide, Australia involving gas distribution network analysis and design utilizing an internationally accepted computer program developed by the Company.

Personnel

The success of the Company's operations depends on the continued dedication and performance of its 2,696 employees. Consumers' therefore endeavours to provide its staff with secure employment, just compensation and an opportunity for advancement in an environment which recognizes the dignity of the individual. Further, programs have been designed to identify positions which are essential to the conduct of the Company's business and to ensure that a pool of qualified personnel is available at all times to fill them. Training programs, an education aid program and career counselling are provided by the Company to develop qualified managers for the future.

During the past year the Company negotiated, within Anti-Inflation Board guidelines, collective agreements with five of its six union locals. Of these, one will expire in November 1977 and is currently being renegotiated and four will expire in 1978. An agreement with Local 161 of the International Chemical Workers' Union expired on September 7, 1977. However, effective September 30, 1977, the 660 operating employees who had been represented by Local 161 I.C.W.U. are now represented by the Independent Gas Workers' Union. The new affiliation chosen by this employee group has been certified as its bargaining agent by the Ontario Labour Relations Board and contract negotiations are now in progress.

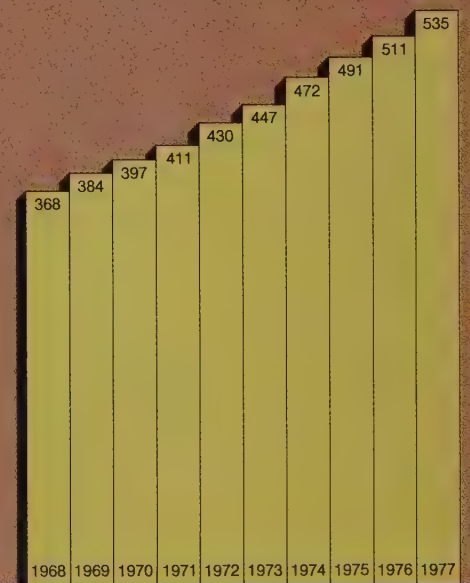
Home Oil Company Limited

Consumers' investment in Home Oil Company Limited provides a valuable medium for participation in the growth of Canada's natural resource industry.

Home, which has been effectively controlled by Consumers' since 1971, is a Canadian oil and gas exploration and production Company with headquarters in Calgary, Alberta. Its major exploration and production properties are located in Alberta, with production also being obtained from properties located in British Columbia, Saskatchewan and various states



Number of customers (thousands)



The number of customers served by the Company at the end of September 1977 was over 534,000.

New construction and conversions from other fuels to natural gas continue to add residential customers to the system. (above left) A service line is being installed into a house formerly heated by oil.

Industrial customers accounted for over 45% of the volume of gas sold in 1977. (above right) Natural gas has many industrial applications, one of which is the manufacture of pipe at The Steel Company of Canada, Limited, Page Hersey Works in Welland, Ontario.



(top) The Company merchandises appliances at retail outlets located throughout its franchise areas. The merchandise outlet above is located at Consumers' Victoria Park Centre in Toronto.

(bottom) Customer contact and communication are essential to the successful operation of our business. Customer information, which is readily retrieved from a central computer and displayed on terminals such as those illustrated above, enables our employees to respond promptly and efficiently to customers' enquiries.

within the United States. Home is also active in the Northwest Territories, the Arctic Islands and offshore Newfoundland, the United Kingdom and Dutch sectors of the North Sea, Thailand and other foreign areas.

In addition to its exploration and production activities, Home is engaged in the transportation of crude oil, natural gas and natural gas liquids and in the underground storage and marketing of liquefied petroleum gas. Other major corporate assets include 1,046,500 common shares of TransCanada PipeLines Limited, substantial undeveloped coal properties in Southwestern Alberta and Southeastern British Columbia, and the right to acquire a 5½% interest in Panarctic Oils Ltd. over the next three years for an aggregate consideration of \$30.5 million.

Home recently announced its results for the nine-month period ended September 30, 1977 in which net earnings after extraordinary items amounted to \$27,761,000 or \$3.39 per share as compared to \$21,310,000 or \$2.61 per share for the comparable period in 1976. Gross revenues increased by 11% to \$99,177,000 during this period primarily as a result of crude oil and natural gas price

increases. Home reported that the net flow of funds from operations for the nine-month period was \$62,595,000, an increase of 42% over the \$44,099,000 reported in the same period last year.

Home has announced that, primarily as a result of an expanded exploration program in Western Canada, its capital expenditure program will amount to \$94 million in its 1977 fiscal year, an increase of \$38 million over the amount expended in 1976. A very active land acquisition and exploration program is being undertaken within the Foothills and Deep Basin areas of Alberta.

On October 18, 1977 Home announced that it intended to make a cash offer to purchase all of the outstanding shares of Bridger Petroleum Corporation Ltd. at \$12.00 (Canadian) per share. The offer will be conditional upon a minimum number of shares being tendered and Home will have the right to terminate the offer if this is not met.

An overview of Home's financial and operating results for its five fiscal years ended December 31, 1976 appears on the facing page of this Report. Also appearing on this page is a table showing selected information on the Company's investment in Home covering Consumers' six fiscal years ended September 30, 1977.

Copies of the latest Annual Report of Home Oil Company Limited may be obtained by writing to: The Secretary, The Consumers' Gas Company.



This workover rig, which is under contract to Home Oil, is increasing the capacity of a well in the Swan Hills area located approximately 240 kilometers northwest of Edmonton, Alberta.

TABLE 1. HOME OIL COMPANY LIMITED FIVE YEAR REVIEW

Fiscal years ending December 31	1976	1975	1974	1973	1972
Earnings					
Gross Revenue	\$121,393,000	\$109,579,000	\$ 79,520,000	\$ 56,014,000	\$ 39,933,000
Net Earnings (Before Extraordinary Items)	\$ 30,436,000	\$ 26,545,000	\$ 17,418,000	\$ 14,512,000	\$ 7,090,000
Per Share	\$ 3.73	\$ 3.26	\$ 2.14	\$ 1.90	\$.96
Extraordinary Items	\$ —	\$ (963,000)	\$ (3,902,000)	\$ (295,000)	\$ 2,198,000
Per Share	\$ —	\$ (.12)	\$ (.48)	\$ (.04)	\$.30
Balance sheet					
Working Capital (Deficiency)	\$ 53,470,000	\$ 33,721,000	\$ (16,884,000)	\$ (2,736,000)	\$ 4,626,000
Property, Plant and Equipment—Net	\$318,055,000	\$289,185,000	\$284,389,000	\$174,262,000	\$167,436,000
Long Term Debt (Less Current Maturities)	\$ 85,111,000	\$ 72,600,000	\$ 68,119,000	\$ 32,466,000	\$ 66,897,000
Deferred Income Taxes	\$ 57,192,000	\$ 49,918,000	\$ 47,858,000	\$ 31,974,000	\$ 28,320,000
Capital Stock	\$134,310,000	\$133,897,000	\$133,632,000	\$133,573,000	\$104,506,000
Retained Earnings	\$110,447,000	\$ 85,115,000	\$ 63,611,000	\$ 54,167,000	\$ 43,825,000
Exploration and development					
Exploration Expenditures	\$ 36,486,000	\$ 20,199,000	\$ 31,445,000	\$ 17,720,000	\$ 10,272,000
Development Expenditures	\$ 17,319,000	\$ 9,885,000	\$ 3,745,000	\$ 3,478,000	\$ 5,254,000
Gross Exploration Acreage	36,264,000	33,850,000	43,247,000	27,651,000	21,618,000
Net Exploration Acreage	7,451,000	7,976,000	11,797,000	7,340,000	5,797,000
Drilling activity					
Gross Working Interest Wells Drilled	134	92	107	72	32
Net Oil Wells	5	1	4	4	2
Net Gas Wells	20	8	9	2	1
Net Dry Wells	19	15	25	17	7
(Excludes wells drilled by others under farmout agreements)					
Proven developed reserves					
Crude Oil and Natural Gas Liquids—barrels	140,816,000	152,725,000	166,593,000	155,701,000	167,967,000
Natural Gas—thousand cubic feet	758,578,000	782,570,000	810,822,000	726,228,000	807,701,000
Sulphur—long tons	1,302,700	1,786,400	2,154,300	1,662,900	1,712,700
Production and operations					
Crude Oil and Natural Gas Liquids Production					
—barrels per day	34,959	39,656	37,803	36,030	29,385
Natural Gas Sales—thousand cubic feet per day	119,165	125,174	119,523	121,495	115,162
Sulphur Sales—long tons	47,211	35,801	54,886	48,884	48,531

TABLE 2. CONSUMERS' INVESTMENT IN HOME OIL COMPANY LIMITED — SELECTED INFORMATION

Fiscal years ending September 30	1977	1976	1975	1974	1973	1972
Number of Home shares held						
Class A non-voting	826,484	514,084	389,084	389,084	389,084	389,084
Class B voting	1,276,788	1,276,788	1,276,788	1,276,788	1,276,788	1,276,788
Class A non-voting obtainable through purchase warrants held	109,965	109,965	109,965	109,965		
Percent of Class B voting Shares held	49.6	49.6	49.6	49.6	49.6	49.6
Percent participation in equity and earnings	25	22	20	20	20	22
Equity in earnings of Home before extraordinary items	\$ 8,195,000	\$ 5,614,000	\$ 4,580,000	\$ 3,335,000	\$ 2,382,000	\$ 915,000
Equity in underlying net assets of Home	\$69,920,000	\$52,813,000	\$43,863,000	\$40,568,000	\$38,488,000	\$34,813,000
Cost to Consumers' of its interest in Home	\$77,901,000	\$68,107,000	\$64,641,000	\$64,603,000	\$60,692,000	\$43,316,000
Dividends received from holdings in Home	\$ 1,400,000	\$ 750,000	\$ 833,000	\$ 833,000	\$ 833,000	\$ 663,000

Table 1. This information has been reproduced from the 1976 Annual Report of Home Oil Company Limited.

Table 2. This data has been provided for Consumers' and its consolidated subsidiary, Cygnus Corporation Limited. Where appropriate an elimination has been made for the minority interest in Cygnus. Following the 1977 year end the Company purchased 525,000 Class A shares at a cost of \$21.6 million thereby increasing its participation in the equity and earnings of Home to 31.6%.

Financial Review

Income before extraordinary items amounted to \$44,704,000 in 1977, an increase of \$7,423,000 or 20% over 1976. The corresponding earnings per share increased from \$1.68 in 1976 to \$2.03 this year.

Several factors have combined to produce this income improvement. The higher rates introduced on October 1, 1976 provided the Company with the revenue found appropriate by the Ontario Energy Board in its Reasons for Decision issued on June 30, 1976. This decision permitted the Company to increase its gross revenue on an annual basis by approximately \$18 million, to offset increases in costs in 1976 and to provide the Company with an

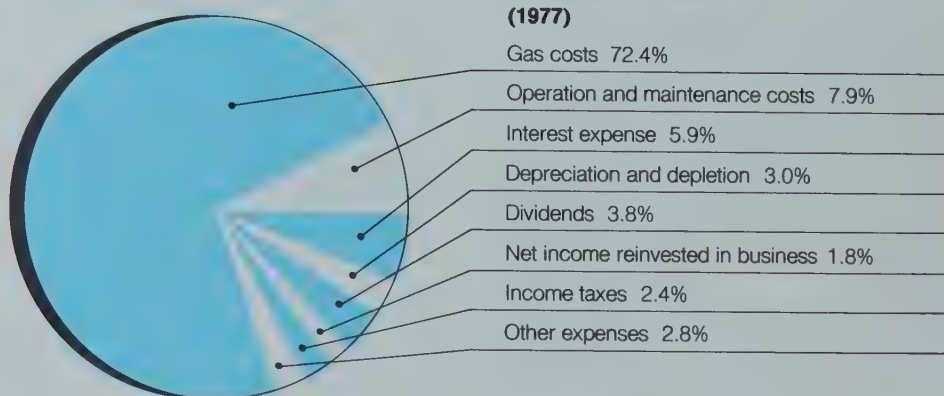
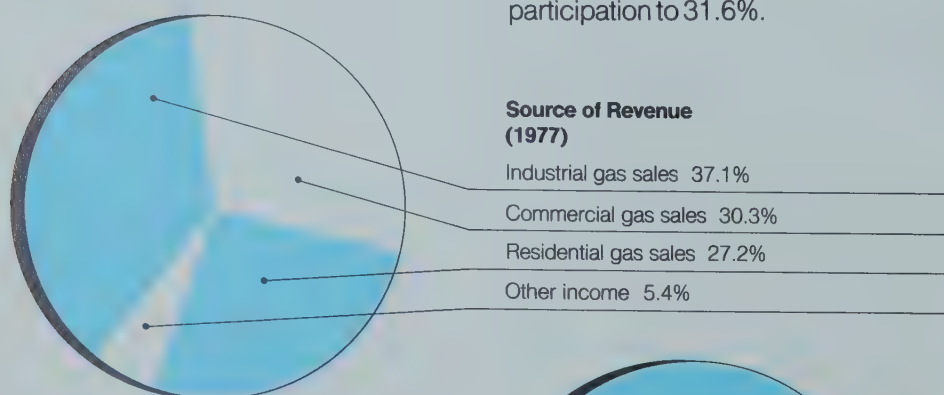
allowable rate of return of 10.1%. Approximately \$8 million of this amount was received in the 1976 fiscal year as a result of interim rate relief granted by the Board prior to its June 30th decision. The incremental revenue flowing from this decision in 1977 therefore amounted to approximately \$10 million.

Other factors contributing to earnings growth in 1977 were the colder than normal weather and an increase in the Company's equity in the earnings of Home which rose from \$5.6 million in 1976 to \$8.2 million in 1977. Of the \$2.6 million increase, \$2.1 million can be attributed to growth in Home's earnings and \$0.5 million to the additional 312,400 Class A shares of Home acquired by Consumers' during the 1977 fiscal year. These additional shares increased Consumers' participation in the equity and earnings of Home from 21.8% to 25.2%. Following the year end the Company purchased, 525,000 Class A shares thereby increasing its participation to 31.6%.

Gas sales revenue increased by \$129 million or 26% over last year, with total sales reaching \$627 million. However, as has been the case in recent years, the majority of this increase amounting to \$104 million, can be attributed to the recovery of increased gas costs in 1977.

A number of extraordinary items are reflected in the statement of income for 1977, the net effect of which has been to reduce the basic earnings per common share from \$2.03 to \$1.67. Two of the items, namely the sale of 60,000 shares of Community Antenna Television Ltd. which provided a net extraordinary gain of \$2.2 million and the sale of the Company's investment in 700,000 common shares of Union Gas Limited which created a net loss of \$6.5 million, were arranged in order that the funds committed to these investments could be redirected into areas more relevant and profitable to the Company. A net extraordinary loss amounting to \$4.0 million resulted from the abandonment of the Canadian Arctic Gas Study Limited project. The circumstances surrounding this loss are described on page 5 of this Report.

In recognition of Consumers' desire to pursue its investment in the natural



resource industry through its investment in Home, the Company has agreed to sell its western Canadian resource holdings to Sundance Oil Company for a cash consideration of \$20.1 million. Properties in Southwestern Ontario and the States of New York and Pennsylvania are, however, being retained. The agreement of sale, entered into on September 30, 1977, is subject to approval under the provisions of the Foreign Investment Review Act (Canada). Under the full cost method of accounting for oil and gas operations, the Company combines, as an area of interest, the cost of its resource holdings in Western Canada with exploration expenditures made in the Mackenzie Delta through the Delta 5 Group. The sale to Sundance, if approved, will remove reserves now supporting the combined area of interest and cause a write-off of non-productive Delta costs. The resulting net extraordinary gain of approximately \$3.2 million (15.4¢ per share) would therefore be recorded in

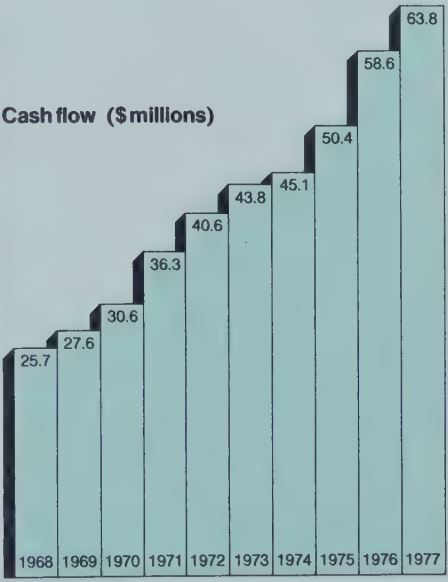
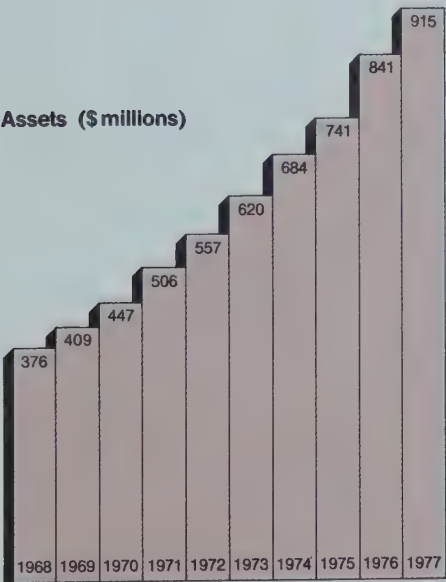
the 1978 fiscal year.

Under its gas purchase contracts with TransCanada, the Company was obliged to take and/or pay for certain annual minimum volumes of gas in its 1976 contract year. To avoid a potential penalty thereunder, the Company entered into an agreement with Ontario Hydro to sell to it, on a deferred payment basis, additional volumes of gas sufficient to enable the Company to fulfill its minimum gas purchase requirements. The deferred account receivable resulting from this agreement, amounting to approximately \$22 million at September 30, 1976, was included on the consolidated balance sheet under mortgages and non-current receivables. In the first month of the 1977 fiscal year, additional deliveries to Hydro increased the deferred receivable to \$30 million. At September 30, 1977, \$22 million, being due within twelve months, is recorded as a current asset under accounts receivable and \$8 million, to be received in fiscal 1979, is recorded

under mortgages and non-current receivables. In addition to amounts due from Ontario Hydro, the increase in accounts receivable reflects the higher cost of gas which has been passed on to customers in rates.

At meetings held on December 15, 1976 and January 11, 1977, the Company's debentureholders approved certain amendments to the trust indentures under which debentures were issued. The principal amendment reduced the new issue interest coverage test from 2½ to 2 times, thus improving the Company's ability to issue long term debt. For this concession, the Company agreed to increase the interest rate on outstanding debentures by ½ of 1%. The reduction in the interest coverage test to a level more in keeping with current market practice will assist the Company to finance its required capital expenditure program in the foreseeable future.

An additional \$70 million was obtained during the year through a public financing in the form of a 9.60% Sinking Fund Debenture issue dated September 29, 1977. This financing reduced the Company's short term indebtedness which resulted from capital expenditures and increases in the cost of gas in storage, accounts receivable and other assets.



CONSOLIDATED BALANCE SHEET

The Consumers' Gas Company

	September 30	
(Expressed in Thousands)	1977	1976
Assets		
Current Assets		
Cash and deposits	\$ 5,489	\$ 2,334
Accounts receivable	71,685	36,442
Income taxes recoverable	—	5,143
Materials and supplies at the lower of cost and replacement cost	6,086	6,694
Gas stored underground at cost	96,116	76,185
Prepaid expenses	2,456	2,284
	181,832	129,082
Investments		
Home Oil Company Limited (note 3)	73,520	56,413
Tecumseh Gas Storage Limited and other companies	9,708	9,617
Other investments at cost (note 3)	954	13,365
	84,182	79,395
Property, Plant and Equipment (note 4)	746,922	694,950
Accumulated depreciation and depletion	127,453	113,125
	619,469	581,825
Other Assets and Deferred Charges		
Mortgages and non-current receivables	16,791	30,573
Property held for resale and other assets at cost	2,155	2,390
Investment in Gas Arctic — Northwest Project Study Group (note 5)	—	5,677
Deferred gas costs (note 6)	5,696	6,264
Unamortized debt discount and expense	4,543	3,379
Other deferred charges	431	2,057
	29,616	50,340
	\$915,099	\$840,642

Approved by the Board:

D. B. Mansur, Director

G. E. Jackson, Director

(Expressed in Thousands)	September 30	
	1977	1976
Liabilities		
Current Liabilities		
Bank borrowings	\$ 13,513	\$ 7,693
Notes payable	51,322	40,000
Accounts payable and accrued	63,484	53,811
Accrued interest on long term debt	7,275	7,237
Taxes payable	4,182	1,361
Dividends payable October 1	6,289	5,816
Funded debt payable within one year	13,004	3,874
	159,069	119,792
Long Term Debt (note 7)		
Funded debt	425,295	373,578
Other	6,350	36,727
	431,645	410,305
Deferred Income Taxes	28,253	28,935
Minority Interest in Subsidiary Company	1,479	1,295
Shareholders' Equity		
Capital stock		
Preference shares (note 8)	37,422	35,119
Common shares (note 9)		
Authorized — 75,000,000 shares without par value		
Issued — 20,652,710 shares (1976 — 20,643,544 shares)	125,280	125,164
Contributed surplus	3,745	3,633
Appraisal adjustment	13,489	14,179
Reinvested earnings	114,717	102,220
	294,653	280,315
	\$915,099	\$840,642

CONSOLIDATED STATEMENT OF INCOME

The Consumers' Gas Company

	Years ended September 30	
(Expressed in Thousands)	1977	1976
Revenue		
Gas sales	\$626,676	\$498,041
Other	23,146	24,725
	<u>649,822</u>	<u>522,766</u>
Cost and expenses		
Gas costs	479,646	375,242
Operation and maintenance	52,362	45,904
Depreciation and depletion	19,908	18,191
Municipal and other taxes	7,821	6,583
Interest and amortization—long term debt	35,620	31,109
Other interest	3,733	3,217
	<u>599,090</u>	<u>480,246</u>
	50,732	42,520
Equity in earnings before extraordinary items		
Home Oil Company Limited	8,195	5,614
Tecumseh Gas Storage Limited and other companies	1,628	1,286
Income before income taxes and extraordinary items	<u>60,555</u>	<u>49,420</u>
Income taxes		
Current	11,593	4,585
Deferred	4,258	7,554
	<u>15,851</u>	<u>12,139</u>
Income before extraordinary items	<u>44,704</u>	<u>37,281</u>
Extraordinary items (note 10)	(7,379)	147
Net income for the year available for dividends and reinvestment in the business	<u>37,325</u>	<u>37,428</u>
Dividends		
Preference shares	2,832	2,626
Common shares	22,298	20,643
	<u>25,130</u>	<u>23,269</u>
Net income reinvested in the business	<u>\$ 12,195</u>	<u>\$ 14,159</u>
Basic earnings per common share (note 11)		
Income before extraordinary items	\$ 2.03	\$ 1.68
Net income	\$ 1.67	\$ 1.69
Fully diluted earnings per common share (note 11)		
Income before extraordinary items	\$ 1.95	\$ 1.64
Net income	\$ 1.63	\$ 1.65

CONSOLIDATED STATEMENT OF REINVESTED EARNINGS

The Consumers' Gas Company

(Expressed in Thousands)	Years ended September 30	
	1977	1976
Balance at beginning of year		
As previously reported	\$ 97,075	\$ 82,793
Adjustment of prior years' income (note 2)	5,145	4,953
As restated	102,220	87,746
Net income reinvested in the business	12,195	14,159
Appraisal adjustment transfer	302	315
Balance at end of year	\$114,717	\$102,220

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

The Consumers' Gas Company

(Expressed in Thousands)	Years ended September 30	
	1977	1976
Source of Working Capital		
Cash flow from operations	\$ 63,830	\$ 58,565
Issue of long term debt	70,000	80,000
Issue of preference and common shares	2,772	—
Sale of investment in shares of other companies	9,357	1,563
Reduction (investment) in mortgages and non-current receivables and other assets, net	14,017	(21,240)
	159,976	118,888
Use of Working Capital		
Net additions to property, plant and equipment	56,888	53,886
Investment in shares of Home Oil Company Limited	9,748	3,441
Investment in Gas Arctic — Northwest Project Study Group	2,375	1,989
Reductions in non-current portion of long term debt	48,660	11,036
Dividends on preference and common shares	25,130	23,269
Other items	3,702	2,113
	146,503	95,734
Increase in Working Capital Position	\$ 13,473	\$ 23,154

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Consumers' Gas Company

Note 1 Summary of Accounting Policies

The accounting policies and practices used by the company and its subsidiaries to record the results of their utility operations are subject to the jurisdiction of various regulatory bodies.

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies since dates of acquisition. The major operating subsidiary companies are: Consumers' Realty Limited, Cygnus Corporation Limited, Niagara Gas Transmission Limited, St. Lawrence Gas Company, Inc., Shorgas Limited, Société Gazifère de Hull, Inc., and Underwater Gas Developers Limited.

The company and its consolidated subsidiaries follow the equity method of accounting for their investments in the following companies:

- (a) Home Oil Company Limited (note 3)
- (b) Tecumseh Gas Storage Limited and other companies 50% owned, and
- (c) to date of sale in 1977, Community Antenna Television Ltd. in which Cygnus had an interest of 37% (note 10).

Dividends received on investments for which the company follows the equity method of accounting amounted to \$2,129,000 in 1977 and \$1,415,000 in 1976.

Since 1973 the excess cost of investments in shares of companies acquired, over the values attributable to their net tangible assets at dates of acquisition, has been insignificant and charged directly to earnings. Prior to 1974 such excess cost was written off and charged to reinvested earnings.

Property, Plant and Equipment

Property, plant and equipment is stated at cost except for gas utility plant and equipment acquired by the company prior to 1956 which, at September 30, 1977, is stated at an appraised value of \$42,672,000. The appraisal increment is shown in shareholders' equity as appraisal adjustment and is being transferred to reinvested earnings over the remaining service life of such assets.

In accordance with the recommendations contained in studies by Stone & Webster Canada Limited, depreciation is calculated on the straight line service life basis using the recorded values of depreciable properties. The major component of utility plant, distribution pipelines, is depreciated at the rate of 1.6% and appropriate rates are used for other items of plant. These rates, when applied to the related plant accounts, are equivalent to a composite rate on all depreciable assets of approximately 3.0% (2.9% for 1976).

The companies follow the full cost method of accounting for gas and oil exploration and development operations whereby all costs of exploring for and developing gas and oil reserves are capitalized as part of property, plant and equipment. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing property, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities. These costs are depleted using the unit of production method based upon estimated recoverable reserves.

The companies include in plant the cost to the companies of funds used for the purpose of construction and the applicable overhead costs attributed to construction. Interest capitalized was \$200,000 in 1977 and \$219,000 in 1976 and overhead capitalized was \$4,170,000 in 1977 and \$3,673,000 in 1976.

Unamortized Debt Discount and Expense

The companies defer the costs incurred on debt issues and charge them against income over the life of each issue. Gains realized on funded debt purchased for sinking fund purposes are applied against the unamortized debt discount and expense related to each issue. When the deferred costs related to each issue are eliminated gains on purchases for sinking funds are included in income. Amounts so included were \$387,000 in 1977 and \$988,000 in 1976.

Income Taxes

The companies record income taxes on a tax allocation basis except in regulated gas utility operations when rate and revenue structures are designed and approved not to recover deferred taxes in current revenues. Such deferred taxes not recovered in revenues and therefore not recorded in the accounts amounted to \$7,800,000 for 1977 (\$7,600,000 for 1976) and to an accumulated amount of \$106,700,000 at September 30, 1977.

Note 2 Adjustment of Prior Years' Income

The company has received income tax reassessments, the effect of which is to reduce income and capital taxes payable in the years 1971 to 1976. Reinvested earnings at September 30, 1976 previously reported as \$97,075,000 has been restated to show a retroactive credit of \$5,145,000 representing the cumulative amount by which income and capital taxes have been reduced. Of the \$5,145,000, \$192,000 is applicable to 1976 and has been reflected in the restatement of the financial statements for that year. The remaining \$4,953,000 is applicable to prior years and has been credited to reinvested earnings at September 30, 1975.

Note 3 Investments

The investment in Home Oil Company Limited is comprised of the following:

(Expressed in Thousands)	1977	1976
Shares	\$69,920	\$52,813
Class A share purchase warrants at cost	3,600	3,600
	\$73,520	\$56,413

The company and its 96.3% owned subsidiary Cygnus Corporation Limited own 826,484 Class A shares (514,084 at September 30, 1976) and 1,276,788 Class B voting shares of Home. Through these holdings, the company controls 49.6% of Home's voting shares and participates in approximately 25.2% (21.8% at September 30, 1976) of Home's equity and earnings. Acquisition of shares subsequent to September 30, 1977 is described in note 15.

The Class A share purchase warrants are exercisable on or before April 30, 1980 as follows: 76,975 shares at \$14.55 U.S. per share and 32,990 shares at \$17.66 U.S. per share.

Other investments include for 1977 and 1976 an investment in Sogepet Limited; and for 1976 700,000 shares of Union Gas Limited at a cost of \$12,846,000 which were sold in 1977.

Note 4 Property, Plant and Equipment

The following is a summary of the property, plant and equipment and related accumulated depreciation and depletion:

(Expressed in Thousands)	1977		1976	
	Asset	Accumulated Depreciation and Depletion	Asset	Accumulated Depreciation and Depletion
Gas utility plant including distribution, transmission and underground storage facilities, land, structures, pipelines, permissions, equipment, etc.	\$676,240	\$118,197	\$638,226	\$105,461
Natural resource properties including wells, gathering lines and exploration and development costs	59,706	4,704	48,023	3,517
Drilling and related equipment	7,984	4,356	8,243	4,095
Other	2,992	196	458	52
	\$746,922	\$127,453	\$694,950	\$113,125

Note 5 Investment in Gas Arctic — Northwest Project Study Group

The company, as a member of the Gas Arctic-Northwest Project Study Group, participated in an extensive study of the feasibility of transporting natural gas from the north slope of Alaska and the Mackenzie River Delta region of Northern Canada to Canadian and United States markets. Pipeline companies incorporated by Gas Arctic filed applications with regulatory authorities in Canada and the United States for authority to construct such a pipeline.

In 1977, the National Energy Board denied Gas Arctic permission to construct its proposed pipeline and recommended that a competing pipeline proposal be approved, subject to satisfying certain conditions.

Consequently the investment in Gas Arctic has been written off and charged against earnings as an extraordinary item in 1977 (note 10).

Note 6 Deferred Gas Costs

During 1972 and 1973, the company paid TransCanada Pipelines Limited an additional \$7,263,000 on certain volumes of gas delivered in that period to enable it to finance the construction of additional pipeline facilities necessary to deliver the gas volumes required by the company. In accordance with Accounting Orders made by the Ontario Energy Board, this amount was deferred in the company's accounts and is being amortized over a period of ten years commencing October 1, 1974.

Note 7 Long Term Debt

Funded debt (Expressed in Thousands)		Maturity	Amount Outstanding	
			1977	1976
The Consumers' Gas Company				
First Mortgage Sinking Fund Bonds				
5%	Series B	1978	\$ 10,000	\$ 10,000
5 ½%	Series C	1983	13,448	14,086
4.85%	Series D (U.S. \$11,100,000; \$11,550,000 in 1976)	1985	11,916	12,399
8 ⅝%	Series E	1993	58,227	59,160
8%	Series F (U.S. \$14,778,000; \$15,000,000 in 1976)	1993	14,510	14,728
8 ¾%	Series G	1994	19,715	20,000
9 ⅛%	Series H	1995	30,000	30,000
11 ⅜%	Series I	1994	15,000	15,000
11 ½%	Series J	1996	20,250	20,250
10 ⅞%	Series K	1996	50,000	50,000
Sinking Fund Debentures				
5 ¾%		1977	—	2,400
7%		1979	4,689	5,073
6 ½%		1981	7,263	7,818
6%		1982	5,943	6,396
6 ¼%		1984	7,072	7,534
6 ⅙%		1985	14,514	15,079
8 ⅝%		1991	45,543	46,600
8 ½%		1992	30,071	30,683
9.60%		1997	70,000	—
Convertible Sinking Fund Debentures				
6% (convertible into common shares at \$21.922 per share).		1989	7,777	7,777
St. Lawrence Gas Company, Inc.				
First Mortgage Sinking Fund Bonds				
5¼% (U.S. \$2,208,000; \$2,280,000 in 1976)		1988	2,361	2,469
			438,299	377,452
Less payable within one year included in current liabilities			13,004	3,874
			\$425,295	\$373,578

Following debentureholders meetings held in December, 1976 and January, 1977 the indentures under which the debentures are outstanding were amended easing restrictions on the ability to issue additional debentures and increasing effective January 15, 1977 by ½ of 1% the interest rates payable on all debentures outstanding at that date except the \$2,400,000 principal amount of 5 ¾% debentures that matured February 1, 1977.

The outstanding principal amounts of funded debt payable in U.S. funds are expressed as the equivalents in Canadian funds at their respective dates of issue.

The aggregate principal of funded debt maturities and sinking fund requirements amount to approximately \$8,955,000 in 1979 and \$17,632,000 in 1980.

Other (Expressed in Thousands)	1977	1976
Promissory notes maturing in 1977 and 1978	\$ —	\$30,000
Promissory note of subsidiary company maturing in 1979	2,500	2,500
Term bank loans of subsidiary company maturing at various dates up to 1979	2,450	3,700
Mortgages payable and sundry indebtedness maturing at various dates up to 1995	1,400	527
	\$6,350	\$36,727

Note 8 Preference Shares

Authorized

Group 1 — 147,689 shares of \$100 each, issuable in series

Group 2 — 5,996,000 shares of \$25 each, issuable in series

Group 3 — 7,999,650 shares of \$20 each, issuable in series

Outstanding	1977		1976	
Group 1	Shares	Amount	Shares	Amount
5½% cumulative Series A, redeemable at a premium of 1%	41,865	\$ 4,186,500	42,362	\$ 4,236,200
5½% cumulative Series B, redeemable at a premium reducing from 2% to 1%	81,849	8,184,900	84,886	8,488,600
5% cumulative Series C, redeemable at a premium reducing from 3% to 1%	23,975	2,397,500	23,975	2,397,500
Group 2				
9¼% cumulative, First Series, convertible into common shares at \$12.50 per share, redeemable at par	106,400	2,660,000	—	—
Group 3				
9% cumulative, First Series, convertible into common shares at \$15.00 per share, redeemable at varying premiums reducing from \$1.40	999,650	19,993,000	999,850	19,997,000
	\$37,421,900		\$35,119,300	

A retirement fund for the purchase of each series of Group 1 preference shares is required to be maintained in the amounts of \$100,000 for the Series A shares, \$200,000 for the Series B shares, and \$60,000 for the Series C shares. These funds are required to be augmented on January 2 of each year by the amounts necessary to re-establish them at the original amounts to the extent that this obligation has not been satisfied by purchase of preference shares for cancellation in prior years. At September 30, 1977 no balance remained in the retirement funds as they had been fully used to purchase preference shares for cancellation.

A retirement fund for the purchase of Group 3 preference shares will begin operating in 1980.

During the year 497 Series A and 3037 Series B preference shares having an aggregate par value of \$353,400 were purchased for cancellation for \$241,800. The amount of \$111,600 by which the par value exceeded the purchase price is included in contributed surplus.

Pursuant to the terms of an Executive Stock Purchase Plan established on November 10, 1976 the company loaned funds at an interest rate of 10¼% per annum for the purchase by a trustee of 110,400 9¼% cumulative redeemable convertible

preference shares Group 2, First Series to be held by or for the benefit of certain executives. The shares were held by the trustee as collateral security for repayment of the loans which aggregated \$2,760,000. All such loans have been repaid in full and the shares released by the trustee.

Note 9 Common Shares

During the year 900 shares were issued for cash under the Restricted Stock Option Plan and 8,266 shares were issued on conversion of \$104,000 of convertible preference shares.

354,758 common shares are reserved for issue on conversion of the outstanding 6% convertible sinking fund debentures. Under the terms of the Restricted Stock Option Plan approved by the common shareholders on November 19, 1956, 890,874 common shares have been set aside for purchase by key employees. At September 30, 1977 802,017 shares had been issued under this plan and options are outstanding on 11,707 shares at \$14.07 per share and 56,550 shares at \$12.00 per share. The last of these options expires on July 5, 1982. A total of 106 employees hold options under the Restricted Stock Option Plan.

Note 10 Extraordinary Items

(Expressed in Thousands)	1977	1976
Loss on sale of common shares of Union Gas Limited net of income taxes of \$206	\$(6,480)	\$ —
Write off of investment in Gas Arctic — Northwest Project Study Group net of income taxes of \$4,013	(4,039)	—
Gain on		
Sale of 19 Toronto Street net of income taxes of \$40	584	—
Sale of Community Antenna Television Ltd.	2,152	—
Share of extraordinary gains of Home Oil Company Limited	404	147
Net extraordinary gain (loss)	\$(7,379)	\$147

Note 11 Earnings per Share

Earnings per share have been calculated on the weighted average number of common shares outstanding during the year, being 20,645,459 for 1977 and 20,643,424 for 1976. Fully diluted earnings per share assume the conversion of the convertible debentures, the convertible preference shares and the exercise of the stock options from dates of issue.

Note 12 Remuneration of Directors and Senior Officers

In 1977 the companies paid \$1,052,000 to directors and senior officers of the company (1976 \$910,000).

Note 13 Retirement Plans

The companies have contributory retirement plans to cover substantially all employees. The normal retirement benefits under these plans commence at age 65. The estimated unfunded past service liability of the companies at January 1, 1975 according to an independent actuarial calculation amounted to \$10,200,000. In the opinion of the actuary this obligation would be liquidated by equal annual instalments of \$1,016,000 over 15 years from January 1, 1975. The instalments for past service are paid annually and charged to operations and the amounts estimated in the actuarial calculations to be sufficient to fund all current costs of the plans are charged to operations in the year incurred.

Note 14 Anti-Inflation Program

The company is subject to the federal Anti-Inflation Act under which guidelines for the restraint of profit margins, prices, dividends and employee compensation were established effective October 14, 1975.

The Anti-Inflation Act provides that if prices and profit margins are established or approved by another regulatory authority the Anti-Inflation Board shall not monitor and control those prices and profit margins, but that such regulatory authority in performing its function shall apply such of the guidelines as are applicable. Accordingly, the company filed with the Ontario

Energy Board evidence of compliance with the guidelines and the Board has concluded that the company's prices and profit margins comply with the guidelines.

The company is also complying with the Anti-Inflation Act and guidelines with respect to employee compensation and dividends.

Note 15 Commitments and Subsequent Events

The company has undertaken to make sufficient use of the facilities of Tecumseh Gas Storage Limited to generate the revenue required by Tecumseh to meet its obligations under Trust Indentures relating to its Series A and Series B debentures. In the event that there is any deficiency, the company will be required to purchase subordinated securities in an amount to make up the deficiency. The management of the company is of the opinion that Tecumseh will generate sufficient revenue to meet its obligations.

The company has agreed to sell substantially all of its proven and exploratory properties in the provinces of Saskatchewan, Alberta and British Columbia for a cash consideration of \$20.1 million. The sale is subject to approval under the Foreign Investment Review Act (Canada). This sale, if approved, will remove reserves supporting the Western Canada area of interest and necessitate a write-off of non-productive costs incurred in that area. The resulting net extraordinary gain from disposition of the Western Canada resource property area of interest would be approximately \$3.2 million.

The federal government has announced an increase in the price of natural gas of approximately 17¢ per Mcf effective February 1, 1978 which would increase the company's cost of gas by approximately \$52,000,000 annually. The company's current application to the Ontario Energy Board seeks approval of an increase in rates to its customers to offset this additional cost of purchased gas.

Subsequent to September 30, 1977 the company acquired an additional 525,000 Class A shares of Home Oil Company Limited for an aggregate consideration of \$21.6 million. This acquisition will increase the company's participation in Home's equity and earnings to 31.6%.

AUDITORS' REPORT

To the Shareholders of The Consumers' Gas Company

We have examined the consolidated balance sheet of The Consumers' Gas Company as at September 30, 1977 and the consolidated statements of income, reinvested earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
November 7, 1977

Thorne Riddell & Co.

Chartered Accountants

FINANCIAL STATISTICS

The Consumers' Gas Company

Condensed Consolidated Balance Sheet (\$000's)	1977	1976	1975
Assets			
Current assets (note 1)	\$181,832	\$129,082	\$ 97,164
Investments	84,182	79,395	72,141
Property, plant and equipment	746,922	694,950	647,442
Accumulated depreciation and depletion	127,453	113,125	101,312
	619,469	581,825	546,130
Other assets and deferred charges	29,616	50,340	25,836
	\$915,099	\$840,642	\$741,271
Liabilities			
Current liabilities	\$159,069	\$119,792	\$111,027
Long term debt	431,645	410,305	341,341
Deferred income taxes	28,253	28,935	21,382
Minority interest in subsidiary companies	1,479	1,295	1,221
Shareholders' Equity			
Preference shares	37,422	35,119	35,376
Common shares	125,280	125,164	125,161
Contributed surplus	3,745	3,633	3,523
Appraisal adjustment	13,489	14,179	14,494
Reinvested earnings	114,717	102,220	87,746
	294,653	280,315	266,300
	\$915,099	\$840,642	\$741,271

Note 1: For years prior to 1975 current assets include the long term portion of accounts receivable on the merchandise finance plan.

1974	1973	1972	1971	1970	1969	1968
\$ 81,475	\$ 63,132	\$ 51,426	\$ 52,943	\$ 58,734	\$ 44,189	\$ 32,242
67,917	64,307	59,051	45,532	17,749	17,058	16,790
601,649	549,692	506,172	460,944	419,572	394,488	369,410
90,898	82,639	77,005	68,420	60,966	58,864	56,329
510,751	467,053	429,167	392,524	358,606	335,624	313,081
23,504	25,706	17,635	14,588	11,997	11,697	14,058
\$683,647	\$620,198	\$557,279	\$505,587	\$447,086	\$408,568	\$376,171
\$117,133	\$ 71,476	\$105,603	\$ 76,926	\$ 81,322	\$ 45,136	\$ 69,867
362,339	357,087	261,870	236,106	185,580	190,485	136,716
18,403	15,922	12,016	8,846	6,529	5,389	5,109
1,197	2,114	12,482	15,549	727	—	—
15,790	16,012	16,320	16,753	17,176	17,645	17,925
72,940	72,940	72,926	72,712	72,578	72,418	72,371
3,364	3,293	3,233	3,195	3,136	3,025	2,980
14,808	15,024	15,761	17,576	17,925	18,498	20,606
77,673	66,330	57,068	57,924	62,113	55,972	50,597
184,575	173,599	165,308	168,160	172,928	167,558	164,479
\$683,647	\$620,198	\$557,279	\$505,587	\$447,086	\$408,568	\$376,171

FINANCIAL STATISTICS

The Consumers' Gas Company

Consolidated Statement of Income (\$000's)	1977	Years ended September 30	
		1976	1975
Gas sales			
Residential	\$180,373	\$137,549	\$102,859
Commercial	200,603	153,935	107,191
Industrial and other	245,700	206,557	146,634
Total gas sales	626,676	498,041	356,684
Other revenue	23,146	24,725	23,393
	649,822	522,766	380,077
Gas costs	479,646	375,242	244,605
Operation and maintenance	52,362	45,904	44,063
Depreciation and depletion	19,908	18,191	17,440
Municipal and other taxes	7,821	6,583	5,740
Interest and amortization—long term debt	35,620	31,109	27,585
Other interest	3,733	3,217	3,524
	599,090	480,246	342,957
	50,732	42,520	37,120
Equity in earnings before extraordinary items			
Home Oil Company Limited	8,195	5,614	4,580
Tecumseh Gas Storage Limited and other companies	1,628	1,286	1,623
Income before income taxes and extraordinary items	60,555	49,420	43,323
Income taxes			
Current	11,593	4,585	7,298
Deferred	4,258	7,554	2,979
	15,851	12,139	10,277
Income before extraordinary items	44,704	37,281	33,046
Extraordinary items	(7,379)	147	(529)
Net income for the year available for dividends and reinvestment in the business	37,325	37,428	32,517
Preference share dividends	2,832	2,626	2,496
Net income available for common share dividends and reinvestment in the business	\$ 34,493	\$ 34,802	\$ 30,021
Basic earnings per common share			
Before extraordinary items	\$ 2.03	\$ 1.68	\$1.68
After extraordinary items	\$ 1.67	\$ 1.69	\$1.65
Fully diluted earnings per common share			
Before extraordinary items	\$ 1.95	\$ 1.64	\$1.46
After extraordinary items	\$ 1.63	\$ 1.65	\$1.43

1974	1973	1972	1971	1970	1969	1968
\$ 84,061	\$ 75,271	\$ 70,122	\$ 67,325	\$ 65,177	\$ 59,737	\$ 58,860
77,333	62,603	55,178	46,406	40,041	33,934	27,532
101,004	79,766	72,113	44,549	39,599	36,086	30,982
262,398	217,640	197,413	158,280	144,817	129,757	117,374
20,358	17,330	15,036	13,011	11,573	9,788	8,791
282,756	234,970	212,449	171,291	156,390	139,545	126,165
163,565	127,425	115,596	85,413	77,294	68,753	59,605
39,385	34,553	31,513	27,023	24,107	21,088	20,226
15,954	14,745	13,049	11,237	10,114	9,259	8,541
4,770	4,271	4,261	4,177	3,865	3,725	2,958
26,608	22,985	15,878	12,922	10,389	9,463	7,560
3,187	1,995	2,865	2,254	2,116	1,683	1,519
253,469	205,974	183,162	143,026	127,885	113,971	100,409
29,287	28,996	29,287	28,265	28,505	25,574	25,756
3,335	2,382	915	116	—	—	—
1,194	1,051	876	832	635	567	586
33,816	32,429	31,078	29,213	29,140	26,141	26,342
2,627	2,419	3,556	3,904	7,841	7,440	8,373
2,918	3,906	3,170	2,317	1,140	280	54
5,545	6,325	6,726	6,221	8,981	7,720	8,427
28,271	26,104	24,352	22,992	20,159	18,421	17,915
(745)	1,621	—	—	(367)	—	—
27,526	27,725	24,352	22,992	19,792	18,421	17,915
862	875	901	919	940	964	973
\$ 26,664	\$ 26,850	\$ 23,451	\$ 22,073	\$ 18,852	\$ 17,457	\$ 16,942
\$1.57	\$1.44	\$1.34	\$1.26	\$1.10	\$1.00	\$.97
\$1.52	\$1.53	\$1.34	\$1.26	\$1.08	\$1.00	\$.97
\$1.45	\$1.34	\$1.25	\$1.18	\$1.04	\$.97	\$.97
\$1.41	\$1.42	\$1.25	\$1.18	\$1.02	\$.97	\$.97

FINANCIAL STATISTICS

The Consumers' Gas Company

Consolidated Statement of Changes in Financial Position (\$000's)	1977	1976	1975
Source of Working Capital			
Cash flow from operations	\$63,830	\$ 58,565	\$ 50,447
Issue of long term debt	70,000	80,000	41,900
Issue of preference and common shares	2,772	—	20,000
Sale of investment in shares of other companies	9,357	1,563	—
Reduction (investment) in mortgages and non-current receivables and other assets, net	14,017	(21,240)	2,697
Issue of common shares for convertible debentures	—	—	52,221
	159,976	118,888	167,265
Use of Working Capital			
Net additions to property, plant and equipment	56,888	53,886	52,817
Investment in shares of subsidiary companies adjusted for working capital position at dates of acquisition	—	—	43
Investment in shares and warrants of Home Oil Company Limited	9,748	3,441	—
Investment in shares of other companies	—	—	5
Investment in Gas Arctic—Northwest Project Study Group	2,375	1,989	1,288
Deferral of increased cost of gas	—	—	—
Other reductions in non-current portion of long term debt excluding mortgages payable	48,660	11,036	10,232
Preference shares purchased for cancellation	241	144	255
Capital stock and debt issue costs, net	1,586	1,139	1,909
Dividends on preference and common shares	25,130	23,269	20,789
Decrease in mortgages payable, net	20	20	40
Miscellaneous items	1,855	810	194
Exchange of convertible debentures for common shares	—	—	52,221
	146,503	95,734	139,793
Increase (decrease) in working capital position	\$13,473	\$ 23,154	\$ 27,472

1974	1973	1972	1971	1970	1969	1968
\$ 45,053	\$ 43,825	\$ 40,613	\$ 36,324	\$ 30,602	\$ 27,572	\$ 25,695
30,000	104,728	32,000	50,000	—	60,000	—
—	14	212	134	160	47	114
3,552	—	—	—	—	—	—
1,134	800	206	(482)	(370)	2,545	2,505
—	—	—	—	—	—	—
79,739	149,367	73,031	85,976	30,392	90,164	28,314
59,628	53,059	51,176	43,569	33,051	33,087	31,476
344	15,405	4,184	20,558	338	—	—
3,600	—	21,070	—	—	—	—
898	1,128	101	80	—	—	12,846
828	1,572	—	—	—	—	—
—	3,703	3,560	—	—	—	—
23,610	9,947	6,616	5,073	4,856	5,068	4,399
151	248	377	423	469	280	75
338	1,503	660	1,014	127	1,399	—
16,796	16,284	16,307	15,263	13,873	13,541	12,497
96	(436)	(382)	(199)	49	1,163	720
764	1,121	(444)	1,590	(730)	(1,052)	(722)
—	—	—	—	—	—	—
107,053	103,534	103,225	87,371	52,033	53,486	61,291
\$ (27,314)	\$ 45,833	\$ (30,194)	\$ (1,395)	\$ (21,641)	\$ 36,678	\$ (32,977)

OPERATING STATISTICS

The Consumers' Gas Company

	1977	1976	1975
Gas supply and sendout—MMcf			
Natural gas purchased	321,494	308,376	310,143
Natural gas produced	2,011	1,622	3,332
Total gas supply	323,505	309,998	313,475
Gas into storage	(65,522)	(51,456)	(56,439)
Gas out of storage	61,772	51,055	56,462
Total gas sendout	319,755	309,597	313,498
Gas sales to customers—MMcf			
Residential	73,265	65,935	63,932
Commercial	101,407	93,835	90,536
Industrial and other	143,992	147,007	156,842
Total sales	318,664	306,777	311,310
Use by company	383	424	539
Unbilled and unaccounted for	708	2,396	1,649
	319,755	309,597	313,498
Maximum daily sendout Mcf	1,673,000	1,589,700	1,450,800
Minimum daily sendout Mcf	243,100	320,300	306,100
Average daily sendout Mcf	876,000	846,000	859,000
Degree day deficiency (note 1)	4,355	4,026	3,987
Number of active customers (year end)			
Residential	483,143	462,195	443,247
Commercial	45,951	43,214	42,295
Industrial and other	5,734	5,768	5,700
Total	534,828	511,177	491,242
Cost to customers			
Average revenue per Mcf			
Residential	\$2.46	\$2.09	\$1.61
Commercial	\$1.98	\$1.64	\$1.18
Industrial and other	\$1.71	\$1.41	\$.93
Average use per residential customer—Mcf	150.3	141.4	142.6
Number of employees (year end)	2,696	2,706	2,711
Kilometers of mains in use (year end)	14,537	14,243	13,969
Population of area served	4,443,000	4,378,000	4,305,000

Note 1: Degree day deficiency figures given, expressed in Celcius, are those for the Toronto area. The deficiency is a measure of coldness during the heating season and is calculated by adding together the total number of degrees by which the daily mean temperature fell below 18° on those days when it did so.

1974	1973	1972	1971	1970	1969	1968
303,571	277,030	229,907	174,966	177,342	148,742	127,180
3,002	3,006	2,651	1,676	1,581	764	270
306,573	280,036	232,558	176,642	178,923	149,506	127,450
(51,289)	(46,612)	(32,399)	(26,186)	(40,908)	(24,039)	(22,256)
36,984	30,704	42,281	30,979	25,457	20,344	21,321
292,268	264,128	242,440	181,435	163,472	145,811	126,515
62,538	59,249	55,320	53,465	51,568	46,942	46,326
82,814	73,794	65,969	54,651	46,782	38,971	30,114
144,534	128,188	118,757	70,548	63,110	57,939	49,124
289,886	261,231	240,046	178,664	161,460	143,852	125,564
468	507	453	385	374	386	231
1,914	2,390	1,941	2,386	1,638	1,573	720
292,268	264,128	242,440	181,435	163,472	145,811	126,515
1,435,700	1,257,600	1,148,300	977,900	855,300	739,800	719,800
272,600	286,300	236,600	158,000	134,400	135,100	126,700
801,000	724,000	662,000	497,100	447,900	399,500	346,600
4,137	4,057	4,196	4,230	4,099	4,161	4,258
427,181	406,596	391,270	375,275	363,365	352,597	339,145
39,465	35,384	32,985	30,755	28,428	26,342	24,503
5,585	5,415	5,295	5,176	4,876	4,630	4,178
472,231	447,395	429,550	411,206	396,669	383,569	367,826
\$1.34	\$1.27	\$1.27	\$1.26	\$1.26	\$1.27	\$1.27
\$.93	\$.85	\$.84	\$.85	\$.86	\$.87	\$.91
\$.69	\$.62	\$.61	\$.63	\$.63	\$.62	\$.63
145.0	143.2	141.0	141.7	141.0	132.8	135.8
2,703	2,550	2,379	2,322	2,377	2,221	2,142
13,656	13,297	12,766	12,293	12,005	11,779	11,398
4,238,000	4,180,000	4,085,000	3,960,000	3,862,000	3,765,000	3,682,000

THE CONSUMERS' GAS COMPANY

Directors

J.Douglas Gibson, O.B.E.*
Chairman of the Board—The Consumers' Gas Company, Canadian Reinsurance and Canadian Reassurance Companies
Chairman of the Board and Managing Director—Cygnus Corporation Limited
Director—Bell Canada, Harding Carpets Limited, Home Oil Company Limited, The Imperial Life Assurance Company of Canada, Moore Corporation Limited, National Trust Company Limited, North American Reinsurance and North American Reassurance Companies, Northern Telecom Limited, Scurry-Rainbow Oil Limited, Steel Company of Canada Limited

G.E.Creber*

President and Chief Executive Officer—The Consumers' Gas Company
Director—Canada Trusco Mortgage Company, The Canada Trust Company, Chubb Industries Limited, Cygnus Corporation Limited, Home Oil Company Limited, Plumbing Mart Corporation, Rothmans of Pall Mall Canada Limited, Scurry-Rainbow Oil Limited, Shaw & Begg Limited

A.R.Poyntz*

Director—Home Oil Company Limited, The Imperial Life Assurance Company of Canada, The Investors Group

W.H.Zimmerman, Q.C.

Vice Chairman—The Eaton Group of Mutual Funds
Director—The Becker Milk Company Limited, Home Oil Company Limited, Inter-Provincial Diversified Holdings Ltd.

R.H.Carley, Q.C.

Partner—Carley, Lech & Lightbody, Solicitors
Director—Kesco Holdings Limited, Raybestos-Manhattan (Canada) Ltd.

Noah Torno, M.B.E.*

Chairman of the Board and Chief Executive Officer—Jordan & Ste. Michelle Holdings Limited
Director—The Canada Trust Company, Carling O'Keefe Limited, Cemp Investments (Ontario) Limited, Cygnus Corporation Limited

D.B.Mansur, C.B.E.

Consultant

A.G.S.Griffin*

Chairman of the Board—Home Oil Company Limited, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company, Scurry-Rainbow Oil Limited
Director—Canadian Corporate Management Company Limited, Canadian Industries Limited, I.C.I. Americas, National Film Board, Raymond International Inc., Triarch Corporation Limited, United Dominions Corporation (Canada) Limited, Victoria and Grey Trust Company, S.G.Warburg and Company International Holdings Limited

G.W.Carpenter, P.Eng.

Executive Vice-President—The Consumers' Gas Company
Director—Home Oil Company Limited
President and Director—Tecumseh Gas Storage Limited

R.S.Paddon, Q.C.

General Counsel—The Consumers' Gas Company
Partner—Aird, Zimmerman & Berlis, Solicitors

O.E.B.Low, Q.C.

Counsel—Low, Murchison, Burns, Thomas & Haydon, Solicitors
Chairman of the Board—Holo Investments Ltd., Ottawa Investment Management Co. Ltd.

C.S.MacNaughton

Honorary Chairman of the Board—Burns Fry Limited
Director—Bank of Montreal, Canadian Cable Systems Limited, Canadian Cannery Limited, Laidlaw Transportation Limited, Redpath Industries Limited, Sportsmen's Mutual Fund Limited

F.H.Newman, P.Eng.

President—Newman Bros. Co. Limited

R.F.Phillips, F.C.A.

President and Chief Executive Officer—Home Oil Company Limited
President and Director—Scurry-Rainbow Oil Limited
Director—Calgary Power Ltd., Crown Trust Company, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company

R.S.Hurlbut*

Chairman of the Board and President, General Foods, Limited
Director—North American Life Assurance Company, Northern Telecom Limited

G.E.Jackson

Director—C.N.E. Stadium, Monarch Investments Limited, Reed Shaw Stenhouse Limited

Mrs. A.F.W.Plumptre

Consultant
Director—Canada Life Assurance Company, Canada Permanent Mortgage Loan Company, Canada Permanent Trust Company

*Executive Committee Member

Officers

J.Douglas Gibson

Chairman of the Board

G.E.Creber

President and Chief Executive Officer

G.W.Carpenter

Executive Vice-President

K.J.Harry

Senior Vice-President

J.L.Aiken

Vice-President, Administration

J.I.Cuthill

Vice-President, Exploration

T.E.Gieruszczak

Vice-President, Research and Special Projects

R.I.Jones

Vice-President and Chief Engineer

C.J.Kent

Vice-President, Planning and Economics

R.S.Lougheed

Vice-President, Gas Supply

A.R.MacKenzie

Vice-President, Personnel

R.W.Martin

Vice-President, Operations

E.W.H.Tremain

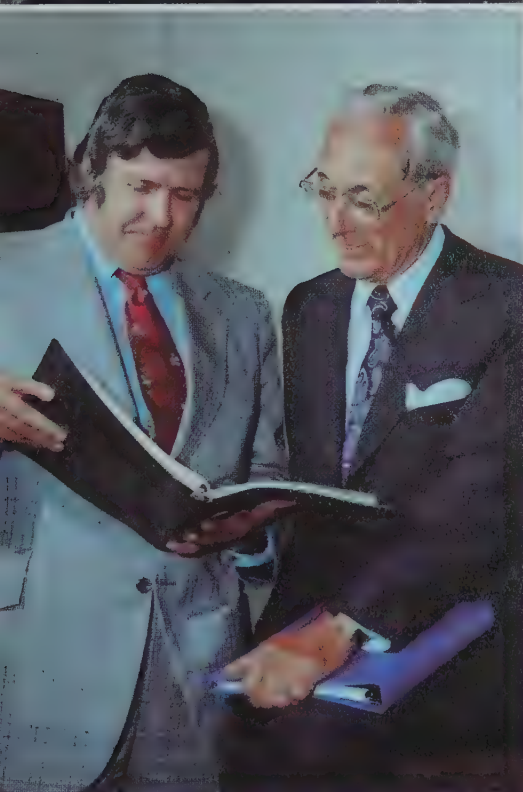
Vice-President, Corporate Affairs

Katherine E. Parkinson

Corporate Secretary and Legal Officer

W.S.Pope

Treasurer and Assistant Secretary



Audit Committee: (top left) Mr. W.H. Zimmerman Mr. C.S. MacNaughton and Mr. A.R. Poyntz (Chairman). (bottom left) Mr. R.H. Carley and Mr. Orian E.B. Low

Pension Committee: (top right) standing — Mr. F.H. Newman and Mr. J.D. Gibson, seated — Mrs. A.F.W. Plumptre, Mr. D.B. Mansur (Chairman) and Mr. G.E. Jackson

Other Directors: (bottom right) Mr. R.S. Paddon, Mr. R.S. Hurlbut, Mr. R.F. Phillips and Mr. G.W. Carpenter.

(Note: Directors are identified from left to right)

CORPORATE INFORMATION

The Consumers' Gas Company

Incorporated under the laws of the Province of Canada March 23, 1848 and continued as if incorporated under the laws of the Province of Ontario

Head Office

Suite 4200, 1 First Canadian Place, P.O. Box 90, Toronto, Ontario M5X 1C5

Registrar and Transfer Agents

Common Shares and Preference Shares, Group 1

Canada Permanent Trust Company, 20 Eglinton Ave. West, Toronto, M4R 2E2 and in St. John's, Halifax, Charlottetown, Saint John, Montreal, Winnipeg, Saskatoon, Calgary and Vancouver

Bradford Trust Company, New York

Registrar and Transfer Agent

Convertible Preference Shares, Group 3

The Canada Trust Company, 110 Yonge St., Toronto M5C 1T4 and in Halifax, Montreal, Winnipeg, Regina, Calgary and Vancouver

Trustee and Registrar

Bonds

5%, 5½%, 4.85%, 8½%, 8%, 8¾%, 9½%, 11½%, 11½% and 10½% First Mortgage Sinking Fund Bonds

Canada Permanent Trust Company, 20 Eglinton Ave. West, Toronto M4R 2E2

Trustee and Registrar

Debentures

7%, 6½%, 6%, 6¼%, 6½% and 8½% Sinking Fund Debentures

Crown Trust Company, 302 Bay Street, Toronto M5H 2P4

Trustee and Registrar

Debentures

8½% and 9.60% Sinking Fund Debentures

National Trust Company, Limited, 21 King Street East, Toronto M5C 1B3

Trustee and Registrar








Convertible Debentures

6% Convertible Sinking Fund Debentures

The Royal Trust Company, Royal Trust Tower, Toronto-Dominion Centre, Toronto M5W 1P9

Common Share Information	1977	1976	1975	1974	1973
Shares Authorized	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
Shares issued at September 30	20,652,710	20,643,544	20,643,344	17,510,173	17,510,173
Weighted average number of common shares outstanding during the year	20,645,459	20,643,424	18,219,408	17,510,173	17,509,896
Additional shares which may be issued upon:					
Conversion of debentures	354,758	354,758	354,758	2,549,915	2,549,915
Conversion of preference shares	1,545,667	1,333,133	1,333,333	—	—
Exercise of Stock Options	68,257	76,457	37,557	86,957	89,757
Dividends declared per share	\$1.08	\$1.00	\$1.00	\$.91	\$.88
Number of Shareholders at September 30	30,097	29,745	29,517	27,323	28,026
Distribution of Shares at September 30					
Canada	97.8%	98.0%	97.9%	97.3%	97.1%
Other	2.2%	2.0%	2.1%	2.7%	2.9%

Consumers' Gas and
Subsidiaries Service Area
September 1977

-  Consumers' franchise areas
-  Offshore exploration acreage
-  Consumers' distribution system
-  TransCanada PipeLines
-  Great Lakes Gas Transmission Company
-  Union Gas transmission facilities
-  Underground storage



LAKE HURON

GEORGI
BAY

Collingw

Shelt

Or

Hillst

Tecumseh Gas storage

Union Gas storage

LAKE ERIE

The operations of the Company are carried out primarily through the following subsidiary and associated corporate entities:

Natural Gas Operations

The Consumers' Gas Company
Tecumseh Gas Storage Limited
Société Gazifère de Hull, Inc.
St. Lawrence Gas Company, Inc.
Niagara Gas Transmission Limited
Shorgas Limited








Oil and Gas Exploration, Development and Production

Home Oil Company Limited
Scurry-Rainbow Oil Limited
Underwater Gas Developers Limited
Sogepet Limited

Other Operations

Cygnus Corporation Limited
Consumers' Realty Limited

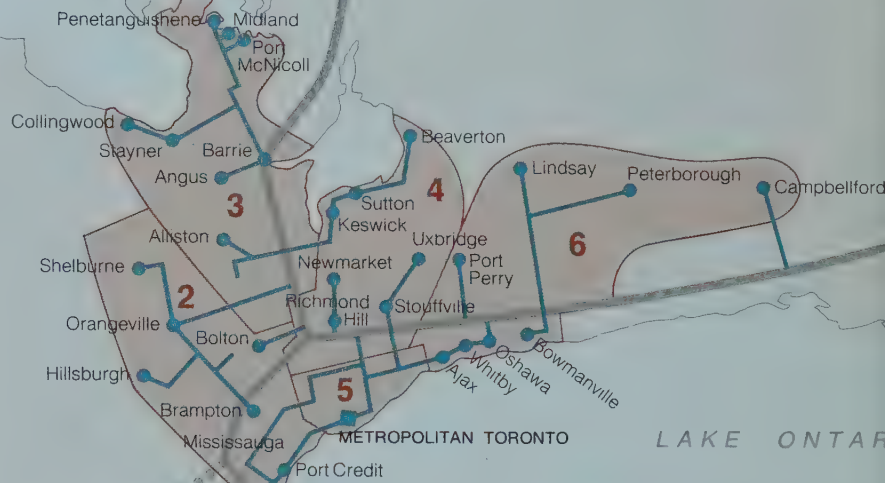
Consumers' Gas and
Subsidiaries Service Area
September 1977

-  Consumers' franchise areas
-  Offshore exploration acreage
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-  Union Gas transmission facilities
-  Underground storage



GEORGIAN
BAY

ONTARIO



Tecumseh Gas storage

Union Gas storage

LAKE ERIE



	Active customers		Sales volumes MMCF	
	1977	1968	1977	1968
1 Provincial Gas	93,800	69,400	46,798	24,603
2 West Central	68,194	28,752	31,209	12,999
3 Georgian Bay	15,361	5,724	6,749	3,067
4 North Central	23,692	9,150	9,239	2,849
5 Metro Toronto	257,258	214,584	180,456	59,999
6 East Central	30,455	14,764	13,011	4,990
7 Eastern Ontario	29,785	13,762	23,399	10,131
8 Gazifère de Hull	6,986	4,440	2,182	2,682
9 St. Lawrence Gas	9,297	7,250	5,621	4,244

THE
Consumers' Gas
COMPANY

SUITE 4200 · 1 FIRST CANADIAN PLACE · P.O. BOX 90 · TORONTO · ONTARIO M5X 1C5

Gas sales revenue increased over comparable periods a year earlier by \$99,223,000 in the six months and by \$160,962,000 in the twelve months ended March 31, 1977. These increases in revenue are due mainly to the recovery of increased gas costs of \$79,970,000 and \$134,893,000 in the respective periods. Other contributing factors to the growth in gas sales revenue have been the aforementioned implementation of higher rates in the Fall of 1976 and the colder than normal weather.

On April 7, 1977 the Ontario Energy Board gave final approval in all major respects to the new rate design, which was implemented on an interim basis on October 1, 1976. These rates were designed to generate the allowable rate of return of 10.1% found appropriate by the Board in its decision delivered on June 30, 1976.

Because of its favourable supply position, the Company, during the first three months of calendar 1977, was able to make available to TransCanada PipeLines Limited 10.5 Billion Cubic Feet of gas for export to assist the gas industry in the United States during its emergency shortage. Equivalent volumes will be re-delivered to Consumers' by TransCanada later during this contract year.

The Company recently acquired a block of 150,000 Class A (non-voting) shares of Home Oil Company Limited for a purchase price of \$4.5 million. This investment will increase Consumers' equity participation in Home's earnings to 23.2%. Consumers' continues to control 49.7% of the voting stock of Home Oil.

G. E. CREBER
President and Chief Executive Officer
May 5, 1977

and subsidiary companies

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN FINANCIAL POSITION

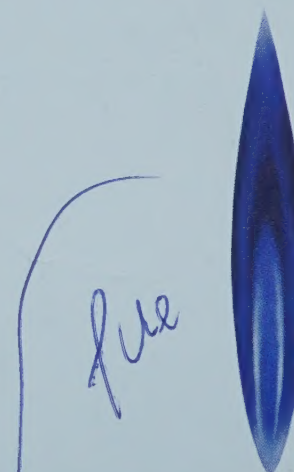
(unaudited)

	6 months Ended March 31	
	1977	1976
(Expressed in Thousands)		
SOURCE OF WORKING CAPITAL		
Cash flow from operations	\$42,659	\$34,991
Issue of long term debt	—	50,000
Issue of preference shares	2,760	—
	<u>45,419</u>	<u>84,991</u>
USE OF WORKING CAPITAL		
Net additions to property, plant and equipment	26,189	25,828
Investment (reduction) in mortgages receivable and other assets, net	6,904	(478)
Investment in Gas Arctic-Northwest Project Study Group	1,055	1,039
Reduction in non-current portion of long term debt. ...	46,384	9,192
Dividends on preference and common shares	12,549	11,637
Other items	<u>1,075</u>	<u>814</u>
	<u>94,156</u>	<u>48,032</u>
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	<u><u>\$ (48,737)</u></u>	<u><u>\$ 36,959</u></u>

AR45

INTERIM REPORT

MARCH 31, 1977





and subsidiary companies

Consolidated Interim Statement of Income

(Unaudited) (Note 1)

	6 months ended March 31		12 months ended March 31	
	1977	1976	1977	1976
	(Expressed in Thousands)			
REVENUE				
Gas sales	\$398,185	\$298,962	\$597,264	\$436,302
Other	11,751	11,989	24,487	24,580
	<u>409,936</u>	<u>310,951</u>	<u>621,751</u>	<u>460,882</u>
COSTS AND EXPENSES				
Gas costs	363,908	223,938	455,212	320,319
Operation and maintenance	25,571	22,848	48,627	45,460
Depreciation and depletion	9,863	9,134	18,920	18,129
Municipal and other taxes	3,881	3,371	7,115	6,334
Interest and amortization — long term debt	17,766	14,265	34,610	27,700
Other interest	2,344	2,701	2,860	4,124
	<u>363,333</u>	<u>276,257</u>	<u>567,344</u>	<u>422,066</u>
	46,603	34,694	54,407	38,816
Equity in earnings before extraordinary items				
Home Oil Company Limited	4,171	3,333	6,452	5,668
Tecumseh Gas Storage Limited and other companies	719	561	1,444	1,466
Income before income taxes and extraordinary items	<u>51,493</u>	<u>38,588</u>	<u>62,303</u>	<u>45,950</u>
Income taxes				
Current	17,464	10,271	12,033	5,432
Deferred	1,405	2,965	5,909	5,249
	<u>18,869</u>	<u>13,236</u>	<u>17,942</u>	<u>10,681</u>
Income before extraordinary items	<u>32,624</u>	<u>25,352</u>	<u>44,361</u>	<u>35,269</u>
Extraordinary Items				
Share of extraordinary gains (losses) of Home Oil Company Limited and Cygnus Corporation Limited	—	322	(175)	(303)
Gain on sale of property	584	—	584	—
Net income available for dividends and reinvestment in the business	<u>\$ 33,208</u>	<u>\$ 25,674</u>	<u>\$ 44,770</u>	<u>\$ 34,966</u>
Basic earnings per common share (Note 2)				
Income before extraordinary items	\$ 1.51	\$ 1.16	\$ 2.02	\$ 1.65
Net income	<u>\$ 1.54</u>	<u>\$ 1.18</u>	<u>\$ 2.04</u>	<u>\$ 1.63</u>

NOTE1: Due to the weather-sensitive nature of much of the Company's business, the information provided above for the six months of each year should not be taken as directly indicative of the results for the full fiscal year.

NOTE2: Basic earnings per common share are calculated on the weighted average number of common shares outstanding during the periods. Fully diluted earnings per share (assuming conversion of the convertible debentures and convertible preference shares and exercise of stock options) are:

	1977	1976		1977	1976
Six months ended March 31			Twelve months ended March 31		
Income before extraordinary items	\$1.43	\$1.12	Income before extraordinary items	\$1.94	\$1.57
Net income	<u>\$1.46</u>	<u>\$1.13</u>	Net income	<u>\$1.95</u>	<u>\$1.55</u>

To our Shareholders:

Basic earnings before extraordinary items for the six months ended March 31, 1977 were \$1.51 per common share compared with \$1.16 per common share for the same period in 1976. The basic earnings before extraordinary items for the twelve months ended March 31, 1977 were \$2.02 per common share compared with \$1.65 for the same period last year.

Net income per common share for the six months ended March 31, 1977 was \$1.54 compared with \$1.18 for the same period in 1976. The net income per common share for the twelve months ended March 31, 1977 was \$2.04 compared with \$1.63 for the same period last year. The extraordinary item reflected in net income per common share in 1977 resulted from the sale of the property at 19 Toronto Street.

The growth in basic earnings per common share can be attributed largely to the much colder than normal weather experienced in the 1976-77 winter season as well as to the implementation on October 1, 1976 of rates designed to give effect to the decision of the Ontario Energy Board on June 30, 1976. The weather during the six and twelve month periods ended March 31, 1977 was 13.0% and 10.5% colder, respectively, than during the comparable periods in the preceding year. Such colder weather almost entirely accounts for the increase to 202.8 Billion Cubic Feet in volumes of gas sold during the period ended March 31, 1977 compared to 191.2 Billion Cubic Feet during the same period in the preceding year.

It should be emphasized that the significant growth in earnings in the period October to March includes a very high percentage of the temperature-sensitive sales made during the fiscal year and therefore the proportionate rise in basic earnings for the full year will be less than in the past six months. Moreover, in light of the unusually cold weather this past year, the Company cannot expect a substantial earnings increase in the 1978 fiscal year.